

Small business owners who want to provide health insurance for themselves, their families and their employees have a new program to help. The Health Savings Account, signed into law by President George W. Bush in December 2003, offers small business owners and employees what they need from health coverage: affordability, portability and freedom.

HSAs can save small business owners up to 40 percent in health care costs. Some small business owners who previously couldn't offer health care to their employees can do so now through HSAs. Small business owners switching to HSAs from other, traditional health coverage plans can save money to buy new equipment and grow their businesses.

The U.S. Small Business Administration — your small business resource — provides tools and services to help small businesses succeed. The SBA offers the following questions and answers to help small business owners learn more about HSAs.



What is a Health Savings Account?

An HSA is a tax-free savings account that allows individuals to save their own money to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis.

Can small business owners offer HSAs to their employees?

Yes. Employers can set up plans for employees with providers, which generally will be insurance companies and banks.

Who is eligible for an HSA?

To be eligible for an HSA, an individual must be covered by a High Deductible Health Plan, must not be covered by other health insurance (does not apply to specific-injury insurance and accident, disability, dental care, vision care, long-term care), must not be eligible for Medicare, and can't be claimed as a dependent on someone else's tax return.

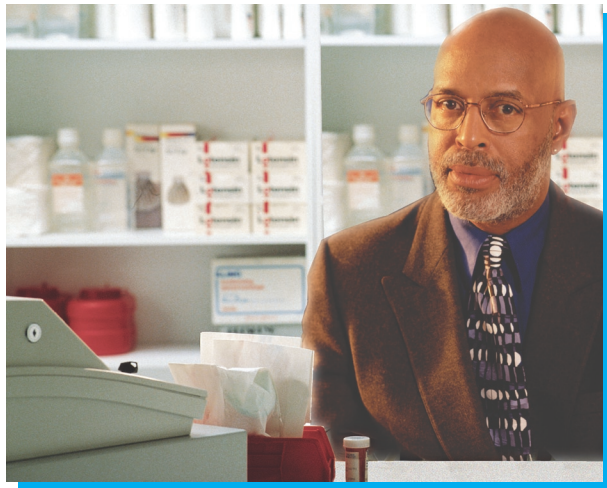
What Is a "High Deductible Health Plan"?

An HDHP is a health insurance plan with minimum deductible of \$1,000 (self-only coverage) or \$2,000 (family coverage). The annual out-of-pocket (including deductibles and co-pays) cannot exceed \$5,000 (self-only coverage) or \$10,000 (family coverage). HDHPs can have first-dollar coverage (no deductible) for preventive care and higher out-of-pocket (copays & coinsurance) for non-network services.

Can small business owners contribute to an HSA?

Yes. Contributions to HSAs can be made by either the employer or the employee, or both. Contributions by the individual employee are "above-the-line" deductions. Those by the employer are not taxable to the employee (excluded from income). Contributions may also be made by others on behalf of an eligible individual and deducted by the individual. All contributions are aggregated.





How much can small business owners contribute to an HSA?

The maximum contribution is the lesser of the deductible amount under the HDHP or (for 2004) \$2,600 for individuals or \$5,150 for family coverage. These dollar limits will be adjusted for inflation each year.

Do HSA funds roll over year after year?

Yes, the money invested in an HSA rolls over from one year to the next.

Do small business owners have any control over the money invested in an HSA?

In most cases the employee will have control over the assets. However, some small business owners are exploring the idea of having control over the investments.

Can you roll the money in an HSA over into an IRA?

You cannot roll the HSA funds over into an IRA. They will stay in the HSA or be rolled into another HSA.

What can distributions from the HSA be used for?

The amounts can be distributed for either qualified medical or other expenses. If the amount distributed is used for qualified medical expenses, then the distribution is tax free. If the amount distributed is used for other than qualified medical expenses, the amount distributed will be taxed and, for individuals who are not disabled or over age 65, subject to a 10 percent tax penalty.

Have additional questions about HSAs?

Email the Treasury Department:

HSAINfo@do.treas.gov

or consult the following Web sites:

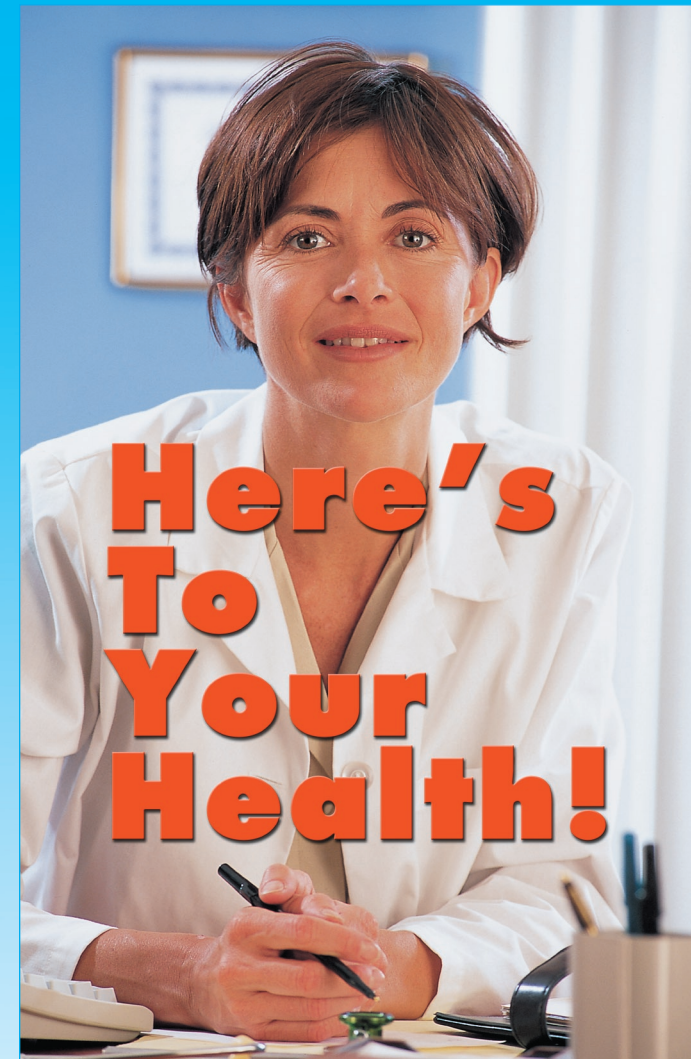
www.treasury.gov/offices/public-affairs/hsa/

www.sba.gov

All of the SBA's programs and services are provided to the public on a nondiscriminatory basis.



What You Need to Know About Health Savings Accounts



U.S. Small Business Administration

SBA

Your Small Business Resource